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UNCLAS SECTION 01 OF 02 HANOI 000001

SIPDIS

SENSITIVE

STATE PASS USTR FOR DSPONER/CMILLER/EBRYAN
STATE FOR EAP/BCLTV AND EB/TPP/ABT/BTT
USDOC FOR OTEXA
BANGKOK FOR CUSTOMS ATTACHE
USDOC ALSO FOR 4431/MAC/AP/OPB/VLC/HPPHO
TREASURY FOR OASIA

E.O. 12958: N/A

TAGS: [KTEX](#) [ECON](#) [VM](#)

SUBJECT: Vietnam: Textile Corruption and Allocation Update

REF: (A) Hanoi 2620 (B) Hanoi 2752 C) HCMC 1246

1. (U) This is a Hanoi - Ho Chi Minh City joint reporting cable.

2. (SBU) Summary: Since September, six Ministry of Trade officials, including a former Vice Minister, have been arrested for participation in a scheme to extract bribes in exchange for U.S. textile quota. After a short delay, the GVN began allocating 2005 quota in October in what one buyer termed "the most transparent allocation to date" in Vietnam. Despite problems with corruption and the fact that Vietnamese textile/apparel exports to the United States will remain under quota in 2005, U.S. buyers appear committed to sourcing textiles and apparel in Vietnam in the short run. End Summary.

3. (SBU) Since September, a total of sixteen people have been arrested in association with the quota textile corruption scandal (see reftels), including Mai Van Dau, a former Vice Minister of Trade, his son and four other MOT officials. Vice Minister Dau was arrested on November 18 on charges of "abuse of power." (Note: The Vice Minister has not worked on textile quotas since his son's arrest on September 30. End Note.) The GVN's investigation into the case is ongoing and trial dates have not been set. Under Vietnamese criminal law, officials charged with "serious offenses" can be held for up to three months, with the possibility of up to seven additional months of detainment before trial.

4. (SBU) The corruption case initially delayed the allocation of the first tranche of textile/apparel quota for 2005. Allocation was supposed to take place in early September, but the GVN postponed allocation until mid October. The GVN plans to allocate the final tranche by the end of January. For 2005 quota, the GVN increased the amount of quota allocated based on the "past performance" of factories from 75 percent to 80 percent. U.S. buyers had lobbied unsuccessfully for allocation based entirely on past performance. MOT maintains it needs to reserve some quota for development purposes. The remaining 20 percent of quota is allocated to: factories that use local materials (three percent), exporters of non-quota textiles to the United States (three percent), remote enterprises (one percent), enterprises invested in weaving and dying mills (four percent), and enterprises with contracts with large U.S. companies (seven percent). (Note: This final category is for factories which supply U.S. buyers that purchase more than USD 20 million in textiles/apparel from Vietnam annually. End Note.)

5. (SBU) For U.S. textile/apparel buyers, the corruption scandal has both positively and negatively impacted their operations in Vietnam. Since September, MOT has made efforts to increase the transparency of the quota allocation process. MOT began putting a great deal of information related to allocation directly onto its website, allowing the industry to get a clear picture of each factory's capacity, the amount of quota requested and the amount of quota allocated. MOT also set up a question and answer page on its website to provide answers to questions from the industry. One U.S. buyer resident in HCMC told Ambassador December 11 that allocation of 2005 quota has been the "most transparent allocation to date" in Vietnam.

6. (U) In October, MOT issued two notices on textile quota allocation. The first provided information on the remaining 2004 quota and how MOT would carry out supplemental allocations. The second notice detailed the procedures for allocation of 2005 quota, listed the companies that would be allocated quota in the first tranche, and instructed companies to deliver quota-related documents to MOT by courier rather than in person. The second notice also identified local companies that were suspected of transshipping textiles/apparel or had been close based on the August 2004 visit of a U.S. Customs Textile Production

Verification Team (TVPT) visit to Vietnam.

17. (SBU) On the other hand, the corruption scandal has also created difficulties for U.S. buyers. In an effort to minimize opportunities for corruption, the Minister of Trade issued strict new regulations governing contact between businesses and MOT officials. This has limited opportunities for U.S. industry representatives to meet with MOT officials in the last several months. (Note: since conclusion of the bilateral textile agreement in early 2003, representatives of the Amcham Textile Subcommittee have met regularly with MOT officials to discuss issues related to textile allocation. These meetings often resulted in positive modifications to the allocation process. End Note.) Additionally, MOT now prohibits the transfer of quota (both 2004 and 2005) between factories, decreasing the allocation system's flexibility and making it more difficult for buyers to source goods. According to the HCMC Amcham Textile Subcommittee, lack of transferability of quota has contributed to low fill rates in several key categories.

18. (SBU) The allocation problems and the fact that Vietnam will remain subject to textile quotas for export to the U.S. market in 2005 has apparently not impacted U.S. buyers' commitment to Vietnam as yet. U.S. companies continue to view sourcing in Vietnam as a strong alternative or balance to sourcing in China. One buyer (whose company exported about USD 150 million worth of garments and apparel in 2004) told the Ambassador that her company sources more than twenty percent of its production in Vietnam and plans to expand its business in 2005. She noted that costs of production of textiles/apparel in Vietnam rival China and Vietnamese workers generally produce a higher quality product. She also said that uncertainties about the use of safeguards against China in 2005 are creating an added incentive for U.S. buyers to stick with Vietnam, at least in the short run. Another U.S. buyer (whose company exported about USD 50 million in textiles/apparel from Vietnam in 2004) told Econoff his company is in Vietnam "for the long haul" even if Vietnam's target of accession to the WTO in 2005 slips.

BOARDMAN.